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SUBJECT: CROSSING THE ALGERIAN BORDER: AVENUES FOR REGIONAL ECONOMIC INTEGRATION

REF: A. CASABLANCA 207

1B. RABAT 735

1C. ALGIERS 904

Classified By: Charge d'Affaires, a.i. Thomas F. Daughton; reasons 1.4 (b) and (d)

11. (C) SUMMARY: Economic integration in the Maghreb is effectively blocked by the physical border closure between Algeria and Morocco. While there may be hope for a "quiet" rapprochement on the Moroccan side (ref A), Algerian policy makers voice such ardent, public distrust of their Moroccan counterparts that it seems unlikely we could gain traction on direct integration efforts in the near- to mid-term. There is evidence, however, that economic interdependence is growing in the region, particularly between Algeria and Morocco. Although largely limited to the energy sector, this interdependence, and the subtle routes it takes across the closed border, could form the basis of regional economic integration and provide the USG with avenues to offer future support for greater cooperation in the Maghreb. Given the Algerian refusal to decouple any other issue from the Western Sahara dispute, any grander rapprochement initiative with Morocco is unlikely to succeed without significant progress on final status and the future of Sahrawi refugees. END SUMMARY.

THE BORDER IS CLOSED, PHYSICALLY AND MENTALLY

12. (C) The land border between Algeria and Morocco has been closed since 1994. While a certain amount of illicit commerce flows between the countries, Algerian leaders and the press generally support the idea that there are outstanding issues preventing the border from being reopened, particularly a perceived lack of security on the Moroccan side. A recent speech by King Mohammed VI of Morocco criticizing Algeria for its intransigence on the question of the Western Sahara and its linkage of that issue to the border closing infuriated Algerian leaders and press outlets alike. For days after the king's remarks, the front pages of Arabic and French-language daily newspapers carried photos of the king with headlines such as "When the King Loses His Cool," "King Mohammed Dynamites Peace in the Maghreb," and "Borders: the Despair of Mohammed VI."

13. (C) The flap over the King's comments went beyond analyses of his speech. Algerian papers reported anew on the drug trade supposedly originating in Morocco, and the involvement

of both Moroccan security officials and Moroccan families living in the border region who allegedly profit from it. Government operations also foment a distrust of Morocco's control of its side of the border. For example, the director of cooperation at Algerian customs told us on November 15 that intercepting drugs that enter Algeria from Morocco, particularly cannabis, remained one of the top priorities of his agency, in part, he asserted, because the cross-border drug trade helps finance terrorists in the region. The cross-border rivalry extends as well to our planning of programs and visits that involve other stops in Morocco. For example, in preparation for the recent Secretarial visit, we spent more time in the first meeting with the MFA protocol office discussing the Secretary's stop in Morocco than the notional itinerary for Algeria, including a comparison of exactly how many hours she would be spending on the ground in each country.

WHAT IS RAPPROCHEMENT?

¶4. (C) Evidence of a "quiet rapprochement" on the Moroccan side of the Algeria-Morocco border (ref A) begs the question of how we accurately detect and value economic movement across the region. For example, a prime example of rapprochement cited in ref A was a reported increase in Algerian business for General Electric (GE) of Morocco. GE operates several very profitable business units in Algeria, including those supplying power generation and water services, described as key growth areas. The current country manager for GE Morocco is also dual-hatted as regional

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director for GE International. In fact, he was once based in Algiers and was relocated to Casablanca in 1993 because of Algeria's eroding security situation. Thus while GE's country manager for Morocco may also have responsibility for some business activities in Algeria, the profits gained by GE from high-value contracts related to Algeria's investment in public works are less a sign of cross-border rapprochement than a reflection of a regional corporate marketing strategy.

Many U.S. and European companies have long supplied their Algerian operations through distributors in neighboring countries, a practice that Algerian leaders and retailers alike have told us repeatedly they would like to break.

CROSSING THE BORDER: GAS AND ELECTRICITY

¶5. (C) While overland trade is officially blocked between Algeria and Morocco, the countries of the Maghreb do share important economic benefits that require commercial, diplomatic and legal underpinnings. Energy ministers from Algeria, Morocco, Tunisia and Libya, along with the Mauritanian ambassador to Algeria and the secretary general of the Arab Maghreb Union (UMA), met in Algiers in July for the first time since 1995 to discuss a Maghreb electricity market and cooperation in energy development. The ministers agreed to meet again in June 2009 in Morocco. After the July meeting, state utilities from Algeria and Morocco signed new contracts facilitating electricity transmission across their borders. They completed a power-grid link in October that increased Algeria's capacity to export and import electricity to and from Spain, but that also provides greater electrical connectivity between Algeria and Morocco. Eventually this link could assist Maghreb-wide power distribution, but currently only Algeria, Morocco and Tunisia have linked transmission lines.

¶6. (C) Likewise, the Maghreb-Europe Gasline (GME) transports Algerian natural gas to Spain and Portugal via a pipeline running through Morocco. The joint venture provides Morocco a supply of natural gas and transit fees, and while there has been speculation among Moroccan leaders and in the international press that Algeria has refused to negotiate the sale of a greater volume of gas to Morocco for political

reasons (ref B), it is more likely that Algeria simply does not have enough spare gas production capacity to allow it to increase supplies to Morocco and meet its existing contractual obligations to Europe (ref C).

NASCENT EFFORTS TOWARD MAGHREB ECONOMIC UNION

¶17. (U) Algeria and Tunisia may sign a bilateral trade deal as early as December, according to the November 14 edition of the on-line daily journal *Tout sur l'Algérie*. The journal quoted anonymous Algerian government sources as saying the Algerian and Tunisian commerce ministers had discussed trade issues and a new accord the previous week in Tunis. The trade deal would offer preferential tariffs between the countries to match what each offers to their European trade partners. The journal reported that trade between the countries nearly doubled in the first 10 months of 2008 compared with the same period in 2007, and that Tunisia expects one million Algerian tourists by the end of the year.

¶18. (C) Earlier this year, Boualem M'rakach, President of the Algerian Confederation of Employers (CAP) shared with us his vision for a Maghreb economic zone. He noted the formation in 2007 of the Union of Maghreb Employers (UME) which first met in Marrakech and is now headquartered in Algiers. The members of the UME are leading employers or trade groups in Libya, Tunisia, Algeria, Morocco and Mauritania, and their primary goal is the economic integration of the region. As M'rakach described it, if the region's economies were truly integrated the combined market would be irresistible to both domestic and foreign investors, and each country's comparative advantage would provide the synergy to spur economic development across the region. He admitted, however, that political will is missing, and suggested that without pressure from the outside the closed border between Algeria and Morocco would remain an impediment to economic

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integration. In that regard, one of the five elements of the UME's action plan is to develop relations with the European Union to leverage regional economic growth.

¶19. (C) The Algerian Corporation for Fairs and Exports (SAFEX) will host its first Maghreb Fair in late November. Organizers tell us the fair will highlight a diverse range of sectors including agriculture and food products, manufacturing, energy, electronics, services and arts. SAFEX released a statement that 199 Algerian companies have registered to exhibit at the fair, but did not indicate how many exhibitors from other countries were expected.

COMMENT: MODEST OPENINGS FOR ENGAGEMENT

¶10. (C) For the Algerians, the border with Morocco is not simply a gate and guardpost on a highway, but the a stark distinction between the fate of the two nations in the post-colonial era. When challenged, the Algerians even publicly question the purpose of a Maghreb union: reacting to King Mohammed's accusation that Algeria's intransigence threatened to "balkanize" the region, Interior Minister Zerhouni asked at a November 10 press conference if the countries of North Africa should work toward a Maghreb that serves the people or one that fulfills "obscure objectives."

¶11. (C) Despite the obstacles, we may be able to promote regional economic integration by building on infrastructure already in place and in use. Increased gas and electricity exports are Algerian goals aimed at moving the country to a post-oil orientation in the coming decades. Likewise, Algeria is upgrading its 13 ports to expand its shipping capacity, and has a plan to improve the movement of goods from the coast to the interior of the country. The east-west highway, steadily nearing completion, represents the last link in a Red-Sea-to-Atlantic-Ocean ground transportation

network. If and when we engage the Algerians on regional economic integration, we should avoid linking the issue to the politically sensitive issue of Western Sahara, and avoid any direct discussion of opening the land border with Morocco. Instead, we recommend focusing on cooperative efforts where avenues for crossing the border already exist: gas, electricity and shipping. We may also be able to foster more effective dialogue and cooperation on related issues such as customs practices, port security and border surveillance that would produce practical outcomes for both regional integration and U.S. bilateral relations in the region. In this way, we would have a greater chance of encouraging economic integration by quietly focusing on expanding the region's existing economic interdependence, rather than on promoting a new or revamped regional economic and trade agenda.

DAUGHTON